USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 9/5/2006

GAIN Report Number: CH6075

China, Peoples Republic of

Poultry and Products

Annual Report

2006

Approved by:
Maurice House
U.S. Embassy

Prepared by:
Casey Bean, Jorge Sanchez and Zhang, Jianping

Report Highlights:
On August 17, 2006, China suspended broiler imports from Pennsylvania due to a case of low pathogenic avian influenza (LPAI) on July 12. China's broiler production in 2007 is forecast to increase 2 percent to 105 MMT, a slow pace of growth due to the impact of HPAI in China. Post forecasts China's broiler imports in 2007 to increase 16 percent to 430,000 MT due to popularity of select cuts and the slow growth in domestic supplies. However, a tightening-up of the import application process, effective on September 1, 2006, may impact broiler imports. Post forecasts China's poultry product exports in 2007 to increase 4 percent to 365,000 MT. YTD 2006, China's main export markets are Japan, Hong Kong and South Korea. The U.S. opened its market to China's cooked poultry from approved sources in March 2006.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Beijing [CH1]
[CH]

Table of Contents

Situation and Outlook

On August 17, 2006, China suspended broiler imports from Pennsylvania due to an outbreak of LPAI. U.S. poultry exports from other states are not affected. China implements regionalization for poultry diseases, and has also banned imports from Connecticut, Rhode Island and New York due to a different strain of LPAI, H7 strain, believed by China to mutate into H5N1 HPAI.

FAS Beijing forecasts China's broiler production in 2007 to increase 2 percent to 105.2 MMT. The slow pace of growth is mainly attributed to the impact of HPAI on suspension of poultry products.

Post forecasts China's broiler meat imports in 2007 to increase 16 percent to 430,000 MT. China's reduced pace in broiler slaughter has provided a good market opportunity for U.S. broiler meat. The United States is China's largest supplier of poultry meat. In the first 6 months in 2006, U.S. broiler meat exports, both direct shipments and Hong Kong re-exports to China, accounted for 72 percent of China's total imports. This trend is forecast to continue in 2007, as China's 2007 broiler production is not expected to grow significantly. This trend is forecast to continue in 2007, as China's 2007 broiler production is not expected to grow significantly.

Post forecasts China's broiler meat exports in 2007 to increase 4 percent to 365,000 MT. The top three export markets, Japan, Hong Kong and South Korea, account for 97 percent of China's broiler total meat exports. In March 2006, the United States opened its market to Chinese cooked poultry meat (i.e., chicken processed in China from imported U.S. or Canadian raw materials). However, China currently does not have USDA regulatory approval to export its domestically slaughtered broiler meat, and China does not appear interested in re-exporting imported meat at this time.

Broiler

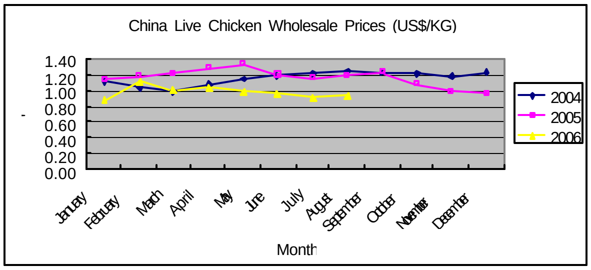
China's broiler production in 2007 forecast to increase 2 percent to 105.2 MMT

Post forecasts China's broiler meat production in 2007 to increase 2 percent to 105.2 MMT from the estimated 103.5 MMT in 2006. The pace of growth will be lower than the 5 percent pace during 1988-2003 due to the HPAI impact and consumers' shift from white to red meats.

Post believes that the meat shift can be attributed to two major factors. Chinese consumers are voluntarily shifting away from poultry due to HPAI concerns, especially after the human infections and 12 cases of death. There is also involuntary or indirect shifting. Individual buyers, under normal conditions, visit wet markets to purchase live chickens or chicken products, while restaurants, lunch kitchens and processors purchase broiler meat in wholesale markets. According to MOA, China has 369 livestock and poultry wholesale markets, 242 in urban areas and 127 in rural areas which customers can purchase poultry. However, after the HPAI outbreaks, poultry wet markets in urban centers were shut down for a couple of months and wholesale broiler markets near HPAI locations were also closed for at least a three week period at a time. This on-and-off availability situation has constrained broiler meat distribution and consumption. Thus, this group of consumers cannot purchase broiler meat due to the impact of HPAI bans on the distribution network for wholesale markets following an outbreak.

Voluntary shifters may impact poultry production by refusing to purchase or consume all broiler products because of food safety concerns and the overall fear due to media reports. However, the group that has been indirectly shifted out of the market is large and more significant. This group of consumers will eventually shift back to purchasing broiler products when available.

HPAI has resulted in a surge of Chinese broiler meat imports, as many consumers believe that broiler products from non-HPAI countries are safer. This will continue to be an opportunity for U.S. broiler meat exports to China. U.S. trade data shows that U.S. broiler meat exports to China, from January to June 2006, were valued at $128.7 million, a 181 percent increase over the same period in 2005. The trade opportunity appears likely to continue into 2007, as the HPAI situation remains uncertain in China.



According to the Chinese poultry industry, HPAI mainly hurt profits for the poultry raising and processing sectors. In the first half of 2006, China's total poultry inventory decreased 3 percent and total slaughter only increased 1 percent over the same period in 2005 because some farmers stopped new placements. Wholesale corn prices also increased 12 percent due to strong demand from other industries, such as starch and ethanol. However, broiler meat prices during the same period of time decreased on average 16 percent from the first half of 2005 due to the loss in Chinese consumption. As a result, poultry raisers lost RMB 10 ($1.3) per bird and the whole industry lost RMB 50 billion ($6.3 billion).

In response to this situation, the Chinese Government is supporting the domestic poultry industry by providing a RMB 10 ($1.3) insurance subsidy for each culled bird due to HPAI outbreaks. At the end of 2005, it also announced 9 favorable policies, mainly financial support including tax exemptions. China extended these policies until the end of 2006. As HPAI has become a major threat to the poultry industry, China has set up a special fund of RMB 2 billion ($250 million) to curb HPAI outbreaks. This policy will likely stabilize China's poultry industry in the following year.

Beside poultry diseases, limited feed grain resources will constrain China's broiler production in 2007 and the coming years. According to the 11th Five-Year-Plan for Agriculture (2006-2010), China's restricted target for grain planted area will decrease from 104 million Ha in 2006 to 103 million Ha in 2010 and restricted overall grain production capacity will increase from 484 MMT in 2006 to 500 MMT in 2010, only 0.65 percent increase on average in the coming five years. The industry reports that poultry consumes over 30 MMT of corn and 12 MMT of soybean a year. High energy cost and a shortage of feed grains will be the driving force behind increases in imports of select parts such as broiler wings, drum sticks, leg quarters, and other poultry products such as paws.

Brief summary of poultry disease outbreaks in China

Selected Summary of Avian Influenza in China, 2004-2005 (Number of Birds)						
	2004			2005		
Name of Disease	Infected	Died	Culled	Infected	Died	Culled
HPAI	144,900	129,100	9,045,000	158,200	151,200	22,225,800
Newcastle disease	455,868	186,981	217,096	1,682,139	697,744	305,368
Source: Ministry of Agriculture						

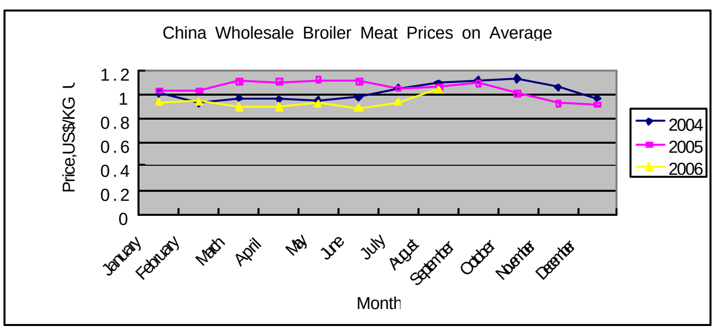
As China has 3 migratory bird routes passing through its territory, the country remains at high risk for future HPAI outbreaks. Limiting the spread of HPAI remains a challenge for China as migratory birds are carriers of the HPAI-H5N1 virus. Thus, HPAI outbreaks have become an ongoing concern to the Chinese poultry production. In the last three years, there were 50 outbreaks in 2004 spanning 16 provinces and 32 outbreaks in 2005 in 13 provinces. From January to August 2006, China has had 14 HPAI outbreaks in 10 provinces. HPAI is expected to continue limiting China's raw broiler meat exports. Please refer to our HPAI summary report CH6057.

Broiler consumption in 2007 is forecast to increase 2 percent to 105.9 MMT

A combination of per capita growth (less than 1%) and population growth averaging 16 million a year contributed to a 2-percent increase in total broiler meat consumption in 2006. According to the local industry, urban per capita poultry meat purchases between January and May in 2006 was 3.23 kg on average, a 16-percent decrease over the same period in 2005. Live broilers sold in urban wet markets were the most impacted due to mandates issued by local governments closing these markets after outbreaks were reported.

In 2005, the poultry meat share of China's total meat production was about 19 percent. Per capita poultry consumption was about 11.2 kg, a 1-percent increase over the previous year. The general consumption pattern of southern consumers preferring domestic yellow breed chicken and northern consumers preferring western breed broilers has not changed. In 2006 and 2007, branded products have taken a larger market share due to consumer health concerns. This will provide a good market opportunity for U.S. branded broiler meat exports to China. U.S. jumbo-sized broiler paws, broiler wings, wing tips and drumsticks will enjoy greater popularity because they are meatier. Brazilian whole chicken wings are better accepted based on their appearance, and better packing by hand. Chinese consumes' view of U.S. and Brazilian leg quarters are more or less the same, most consumers will purchase mainly based on quality, cut and pricing.

Broiler prices for the rest of the year forecast to rise gradually



As the weather turns cooler, meat consumption will improve, and as October holidays (golden tourist week) approaches followed by the Lunar Calendar New Year, Post forecasts broiler meat prices will gradually rise. Broiler meat prices in August 2006 decreased only 2 percent over the same period in 2005 compared with an 11-percent decrease in July 2006.

Imports in 2007 are forecast to increase 16 percent to 430,000 MT, poultry products from Pennsylvania suspended due to LPAI

On August 17, 2006, China announced the suspension of poultry products from Pennsylvania due to an outbreak of LPAI-H5N2 strain on July 12 (MOA/AQSIQ Announcement #703). Any products from this state shipped on and after June 21 will be returned or destroyed. As China implements regionalized bans, U.S. broiler products from other states are not impacted except Connecticut, Rhode Island and New York on which China suspended a couple years ago due to a different kind of LPAI that China believes can mutate into HPAI. Normally, China requires 21 days of suspension. If there is no further outbreak, USDA will draft a letter to both MOA and AQSIQ requesting the lifting of the ban. Such letters have already been delivered to the Chinese agencies for their review.

Post forecasts China's broiler meat imports in 2007 to increase 16 percent to 430,000 MT. China's reduced pace in broiler slaughter has provided a good market opportunity for U.S. broiler meat. The United States is China's largest supplier of poultry meat. In the first 6 months in 2006, U.S. broiler meat exports, both direct shipments and Hong Kong re-exports to China, accounted for 72 percent of China's total imports. This trend is forecast to continue in 2007, as China's 2007 broiler production is not expected to grow significantly.

The United States is the largest supplier of China's imported broiler meat. In the first 6 months in 2006, U.S. broiler meat export to China including direct shipments and Hong Kong re-exports were 132,459 MT accounting for 72 percent of China's total imports over the same period in 2005. In addition, U.S. chicken paw exports to China including direct shipments and Hong Kong re-exports were 73,659 MT accounting for 39 percent of China's total chicken paw imports from the same period in 2005. Traders informed Post that processors need to slaughter 400,000 broilers in order to make 1 container of chic ken paws (25 MT). U.S. broiler meat exports have moved to more direct shipments. In the first half of 2006, U.S. direct shipments increased 178 percent, while indirect shipments through Hong Kong increased only 40 percent over the same period in 2005. Trade contacts informed Post that they prefer more direct shipments because Hong Kong pre-inspection and dock handling will add another HK$5000 (US$700) per container. This trend will continue in 2007.

Policy change may impact China's poultry imports

According to the trade, AQSIQ will tighten-up its administration of issuing Meat Import Quarantine Permits (MIQP). AQSIQ will also re-evaluate and accredit eligible meat importers and will begin listing their names on its website on September 1, 2006 (www.aqsiq.gov.cn). If importers did not fully use up the previous year's MIQP (import quantity limits), they will not receive a new MIQP with an approved import quantity exceeding the actual volume imported the previous year. AQSIQ will only accept an application for a new IMQP for the same type of product from the same origin after they have fulfilled 75 percent of the import quantity approved in the MIQP. AQSIQ will wait to issue new MIQP's until the importer uses up the remaining MIQP to trade in for a new one.

If enacted, FAS Beijing believes this "import management" measure could impact broiler imports and raise costs. Broiler meat trade is managed by both AQSIQ and MOFCOM because select cuts have great market potential. Another possibility is that most eligible importers may not be end users. Importers holding MIQP's that have not been filled may enter into arbitrage by auctioning the MIQP to end users at a higher price since many of them are not eligible to apply for their own MIQP. As a result, the additional cost may limit imported poultry product competitiveness with the trade passing on the higher cost to consumers.

Repeated food safety detections at entry ports due to different standards

China suspended the export eligibility for 11 U.S. poultry plants due to food safety detections at the beginning of this year. The violations were for pathogen and residues. After a field study by AQSIQ officials in March 2006, the suspension was lifted. Now, AQSIQ allows 45 days to two months for corrective actions instead of delisting plants immediately as the result of a USDA/AQSIQ Memorandum of Understanding and several technical talks where both sides agreed to improve cooperation. Besides China's "zero" tolerance (0/25g from 5 samples) on pathogens for imported raw poultry products explained in Post's 2006 semi-annual poultry report CH6004, U.S. exporters should also pay attention to the following items:

Items	Maximum Level
Clopidol (mg/kg)	0.01
Moisture (%)	6
Lead (mg.kg)	0.2
Mercury, meat and egg (mg.kg)	0.05

Exports in 2007 are forecast to increase 4 percent to 365,000 MT

Japan is China's largest export market accounting 61 percent of total broiler exports to the world. Hong Kong and South Korea are the next two key players. The top three markets account for 97 percent of China's total broiler meat exports. However, exports to Japan will likely fall this year due to Japan's new "positive list system". Exporters claim that the stricter requirements on residues have doubled the cost of some materials such as vegetables. Japan's market is also open to other countries' broiler meat, such as Thailand, and opening their market to U.S. beef may increase competition and decrease China's export market share in Japan in 2006 and 2007.

The United States opened its market to Chinese cooked poultry

In March 2006, the United States announced a final rule to include China in the list of countries eligible to export processed poultry meat to the United States based on U.S. and Canadian slaughter materials. The announcement became effective one month later on April 23, 2006. The United States requested that China provide a list of eligible exporters and registration in addition to labeling samples before trade could begin. However, Chinese officials acknowledge their industry's objective is to export cooked poultry to the United States using its own slaughtered materials. USDA completed audits for slaughter equivalency in 2005. The U.S. regulatory procedure for the final rule to include China in the list of countries eligible to export domestically produced to the United States based on its own slaughter will apparently take time.

Poultry Eggs

Post forecasts China's poultry egg products in 2007 to increase 1 percent to 29.3 MMT from the estimated 29 MMT in 2006. China's poultry egg production is concentrated in the major producing provinces of Hebei, Henan, Shandong, Liaoning, Jiangsu and Sichuan. Those 6 provinces account for 65 percent of China's total poultry egg production. The Chinese National Statistics Bureau data shows that China's per capita urban poultry egg purchases from January to May 2006 averaged 0.95 kg, a 5-percent increase from the previous year due to lower prices.

China's egg imports are very small. Post forecasts China's poultry exports in 2007 to increase 2 percent to 709 million pieces. Hong Kong, Macau and Singapore are the top three markets accounting for 93 percent of China's total exports.

Broiler Meat PS&D table

PSD Table

Country China, Peoples Republic of

Commodity Poultry, Meat, Broiler

(1000 MT)(MIL HEAD)

	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		01/2005		01/2006		01/2007	MM/YYYY
Inventory (Reference)	0	0	0	0	0	0	(MIL HEAD)
Slaughter (Reference)	7550	7550	7620	7620	0	7700	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	10200	10200	10350	10350	0	10520	(1000 MT)
Whole, Imports	0	0	0	0	0	0	(1000 MT)
Parts, Imports	281	220	350	370	0	430	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	281	220	350	370	0	430	(1000 MT)
TOTAL SUPPLY	10481	10420	10700	10720	0	10950	(1000 MT)
Whole, Exports	0	0	0	0	0	0	(1000 MT)
Parts, Exports	331	331	375	350	0	365	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	331	331	375	350	0	365	(1000 MT)
Human Consumption	10150	10089	10325	10370	0	10585	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	10150	10089	10325	10370	0	10585	(1000 MT)
TOTAL Use	10481	10420	10700	10720	0	10950	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	10481	10420	10700	10720	0	10950	(1000 MT)
Calendar Yr. Imp. from U.S.	147	147	175	272	0	301	(1000 MT)

Broiler trade matrix

China Broiler Meat Imports, 2004-2006 (Metric Tons)					
	Jan-Dec	Jan-Dec	Jan - Jun		Jan - Jun
Origin	Quantity	Quantity	Quantity Comparison		% Change
	2004	2005	2005	2006	2006/05
World	180,071	370,873	153,918	281,273	82.74
United States	75,645	196,659	70,956	197,420	178.23
Brazil	60,810	142,872	68,961	63,574	-7.81
Argentina	42,587	24,188	12,067	12,497	3.56
Chile	0	2,502	144	5,919	4010.42
France	0	1,659	264	1,266	379.55
Canada	775	2,758	1,404	150	-89.32
Thailand	173	122	122	0	-100.00
Other	81	113	0	447	0.00
HS Code: 020711, 020712, 020713, 020714 and 160232					
Note: China chicken paw imports under HS Code 02071422 is included in this table, but					
excluded in the PS&D table.					
Source: WTA partner countries' trade data					

Hong Kong Broiler Re-Exports to China, 2004-2006 (Metric Tons)					
	Jan-Dec	Jan-Dec	Jan - Jun		Jan - Jun
	Quantity	Quantity	Quantity Comparison		% Change
Origin	2004	2005	2005	2006	2006/05
World	104,653	105,503	43,818	89,548	104.36
Brazil	32,506	43,202	19,182	48,041	150.45
United States	44,638	41,937	18,748	26,165	39.56
Argentina	7,371	5,284	1,190	5,397	353.53
Chile	3,304	5,068	1,920	5,307	176.41
Iran	2,260	3,710	459	2,325	406.54
France	2,067	728	300	834	178.00
United Kingdom	2,435	268	146	77	-47.26
Canada	2,273	404	128	74	-42.19
Other	7,799	4,902	1,745	1,328	-23.90
HS Code: 020711, 020712, 020713, 020714 and 160232 Note: China chicken paw imports under HS Code 02071410 is included in this table, but Excluded in the PS&D table. Source: WTA Hong Kong Census and Statistics Department					

China Chicken Paw Imports, 2004-2006 (Metric Tons)					
	Jan-Dec	Jan-Dec	Jan - Jun		Jan - Jun
	Quantity	Quantity	Quantity Comparison		% Change
Origin	2004	2005	2005	2006	2006/05
World	n/a	189,178	70,729	129,237	82.72
United States	n/a	103,211	32,672	70,286	115.13
Brazil	n/a	60,724	26,272	42,768	62.79
Argentina	n/a	23,138	11,619	12,154	4.60
Chile	n/a	2,034	144	4,029	2697.92
Other	n/a	71	22	0	-100.00
HS Code: 020714.22 Source: WTA partner countries' trade data					

Hong Kong Chicken Paw Re-Exports to China, 2004-2006 (Metrit Tons)					
	Jan-Dec	Jan-Dec	Jan - Jun		Jan - Jun
	Quantity	Quantity	Quantity Comparison		% Change
Origin	2004	2005	2005	2006	2006/05
World	54,515	68,407	27,483	57,709	109.98
Brazil	15,518	24,223	10,220	30,180	195.30
United States	23,327	27,803	13,079	16,510	26.23
Argentina	6,234	4,987	1,189	5,266	342.89
Chile	1,213	3,630	1,176	3,042	158.67
Iran	2,233	3,710	459	1,920	318.30
Turkey	3,096	3,215	1,017	0	-100.00
Canada	825	176	51	0	-100.00
Other	2,069	663	292	791	170.89
HS Code: 02071410 Source: WTA Hong Kong Census and Statistics Department					

China Broiler Meat Exports, 2004-2006 (Metric Tons)					
Destination	Jan-Dec Quantity	Jan-Dec Quantity	Jan - Jun Quantity Comparison		Jan - Jun % Change
	2004	2005	2005	2006	2006/05
World	240,960	331,524	148,450	154,252	3.91
Japan	136,516	178,411	78,427	93,904	19.73
Hong Kong	61,868	88,569	40,262	43,539	8.14
Korea South	1,989	8,673	3,254	5,783	77.72
Bahrain	2,825	4,272	2,094	2,411	15.14
United States	1,197	4,154	1,689	2,034	20.43
Iraq	1,465	2,062	1,011	899	-11.08
Macau	1,051	1,739	777	874	12.48
Singapore	1,442	1,483	770	650	-15.58
Somalia	3,680	3,796	3,526	323	-90.84
Albania	4,273	5,430	3,339	04	-96.89
Armenia	50	1,969	1,009	96	-90.49
Moldova	1,029	37	2412	0	-100.00
Korea North	3,834	5,003	2878	0	-100.00
Azerbaijan	739	2,847	923	0	-100.00
Mozambique	204	2,592	279	0	-100.00
Georgia	835	1,873	803	0	-100.00
Uzbekistan	200	1,267	329	0	-100.00
Other	17,763	9,147	4,668	3,635	-22.13

HS Code: 020711, 020712, 020713, 020714 and 160232
Note: No exports of chicken paws
Source: WTA China's Customs Data

China Wholesale Broiler Meat Prices on Average, 2004-2006 (US$/KG)

	2004	2005	2006	% Change 2006/05
January	1.01	1.03	0.93	-9.71
February	0.92	1.03	0.94	-8.74
March	0.97	1.11	0.9	-18.92
April	0.96	1.10	0.90	-18.18
May	0.95	1.12	0.92	-17.86
June	0.98	1.11	0.89	-19.82
July	1.05	1.05	0.93	-11.43
August	1.09	1.06		-100.00
September	1.12	1.09		-100.00
October	1.13	1.01		-100.00
November	1.06	0.92		-100.00
December	0.97	0.91		-100.00

Source: The Ministry of Agriculture

China Wholesale Prices for Live Chicken on Average, 2004-2006 (US$/KG)

	2004	2005	2006	% Change 2006/05
January	1.10	1.13	0.87	-23.01
February	1.02	1.17	1.11	-5.13
March	0.98	1.21	1.00	-17.36
April	1.07	1.28	1.02	-20.31
May	1.13	1.33	0.98	-26.32
June	1.18	1.2	0.95	-20.83
July	1.21	1.16	0.91	-21.55
August	1.24	1.18		-100.00
September	1.22	1.22		-100.00
October	1.21	1.08		-100.00
November	1.17	0.98		-100.00
December	1.22	0.97		-100.00

Source: The Ministry of Agriculture

China Wholesale Chicken Egg Prices on Average, 2004-2006 (US$/KG)

	2004	2005	2006	% Change 2006/05
January	0.63	0.69	0.58	-15.94
February	0.55	0.68	0.57	-16.18
March	0.60	0.64	0.54	-15.63
April	0.58	0.64	0.54	-15.63
May	0.59	0.72	0.54	-25.00
June	0.66	0.71	0.55	-22.54
July	0.67	0.71	0.59	-16.90
August	0.74	0.74		
September	1.92	0.72		
October	0.71	0.67		
November	0.68	0.62		
December	0.68	0.61		

Source: The Ministry of Agriculture